

17 October 2018

Mr Evan Lutton
Acting Director – Networks
Australian Energy Regulator
Level 17, 2 Lonsdale Street
Melbourne VIC 3001

Dear Evan

RE TasNetworks response to 2018 AER draft benchmarking report for distribution networks

Thank you for providing TasNetworks with an advance copy of the Australian Energy Regulator's 2018 Benchmarking Report for distribution network service providers, ahead of its public release in November. We appreciate the opportunity to review and comment on the report prior to publication.

In response to previous draft benchmarking reports, TasNetworks has lodged submissions with the AER pointing out that the measure of Multilateral Total Factor Productivity (**MTFP**) contains an inherent bias, which penalises TasNetworks for operating a network with little in the way of subtransmission lines. The AER has acknowledged that this is, in fact, the case, and in the final benchmarking report for 2015, published the following qualification.

TasNetworks, however, could be considered an outlier compared to its peers in terms of system structure, which influences its MTFP score to some extent. Compared to other DNSPs, TasNetworks operates substantially less high voltage subtransmission assets and has a comparatively high proportion of lower voltage lines. Therefore, Economic Insights advises that some caution is required in interpreting TasNetworks' MTFP score, given its comparatively unusual system structure.

A similar qualification appeared in the 2016 benchmarking report. The 2017 draft report omitted any such notation, but was corrected in the final report after the omission was brought to the AER's attention. I note that the draft of the 2018 report again omits to qualify the benchmarking results presented for TasNetworks.

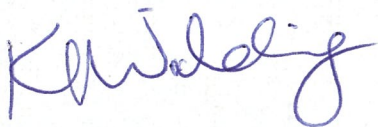
While TasNetworks' performance against the MTFP and Total Factor Productivity benchmarks has declined over the two most recent years covered by the 2018 report, the absence of the explanatory note that has appeared in previous editions of the report has the potential to lead stakeholders to draw inappropriate conclusions about TasNetworks' underlying efficiency. This could cause them to approach their assessment of the revised revenue proposal for our distribution network in the 2019-24 regulatory control period with inaccurate preconceptions about the business' underlying performance, both over time and relative to other distribution networks.

Our understanding is that the modelling used by the AER's economic benchmarking consultants, Economic Insights Pty Ltd, has not changed since the 2017 report was produced, at least in terms of the measures of network outputs and inputs that inform the modelling. On this basis, we would again ask the AER to reinstate the qualification that has appeared in previous benchmarking reports recommending caution when interpreting TasNetworks' MTFP score, given its comparatively unusual system structure.

TasNetworks has no other comments to submit in relation to the draft benchmarking report.

Once again, thank you for the opportunity to comment on the AER's draft 2018 Annual Benchmarking Report for distribution network service providers. To discuss the views expressed in this submission, please contact Scott Lancaster, Senior Regulatory Analyst, on (03) 6271 6519 or at scott.lancaster@tasnetworks.com.au.

Yours sincerely



Kirstan Wilding

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